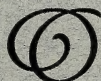


**A GUIDE**  
TO THE STUDY OF  
**McGibbon's Introduction to**  
**Economics**

E. E. HYDE, M.A.



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BY  
E. E. HYDE, M.A.  
Instructor in History, McDougall High School  
Edmonton, Alberta

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## P R E F A C E

"Economics teaches us what rules mankind should observe in order to advance in material prosperity."

The recent increased interest in the study of Economics is largely due to three causes:

(1) A realization that there are certain rules of good business which, if understood and followed, will promote individual and community prosperity.

(2) Certain gainful occupations may have anti-social effects.

(3) Democracies need to be informed to judge intelligently the business policies of their governments.



Grade XI. **HISTORY AND ECONOMICS** Lesson 1

Text:—"Introduction to Economics": MacGibbon

**PART A.****Chapter I.—Preliminary**

1. Under **primitive conditions**, whether centuries ago in Europe, or a few generations ago among our pioneer ancestors in Eastern Canada, each individual or family produced most of its own necessities, comforts, and luxuries, with little or no help from the outside world.

2. In most parts of the civilized world of today **each worker does just one type of labor**, and in return receives from others either in his own community or from distant sources his necessities, comforts and luxuries.

3. To accomplish this exchange, **co-operation** more or less unconscious, has been brought about on a tremendous scale.

4. Even within a single industry the various operations are carried on, each by a single workman. This **specialization** of work, trains each worker for only one small part of the work of an industry, or at best for only one industry.

5. The organization of workers into huge productive communities, each worker trained for and performing a special job is in sharp contrast to the blacksmith, shoemaker, or carpenter shops of years ago. Ownership in such huge industries is usually divided among a large number of owners, each sharing in **joint stock companies**.

6. With this **specialization** of industry and its co-operation and exchange, financial organization to take the place of primitive barter had to be created. The most obvious and important factors in this new system of exchange are our commercial banks.

7. The immense varieties of occupations in our highly specialized modern life are usually classified as follows:

(a) **Extractive industries** — in which materials are taken **directly from nature**.

(b) **Manufacturing industries**, in which the products of the extractive industries are made ready for human use.

(c) **Transportation** — the carrying of goods whether manufactured or not to the places where they are needed.

(d) **Trading and merchandising**—wholesale and retail merchants of all sorts, and banks. These various industries each play their part in the carrying forward of production from the point where the original materials are extracted from nature to where the finished product is ready or "ripened" for human use.

(e) Other groups gainfully engaged, include the professions, law, medicine, teaching, the clergy, and such personal services as domestic services, hotel service, civic employees, civil servants, etc.

(f) Those without gainful occupation include housewives, children, the very old, invalids, as well as those dependent upon income from investment.



8. "Economics teaches us what rules mankind should observe in order to advance in material prosperity."

The recent increased interest in the study of Economics is largely due to three causes:

(1) A realization that there are certain rules of good business which, if understood and followed, will promote individual and community prosperity.

(2) Certain gainful occupations may have anti-social effects.

(3) Democracies need to be informed to judge intelligently the business policies of their governments.

## Chapter II.—Consumption

Wants which increase as man rises in the scale of civilization provide the motive that keeps productive effort going. Our industrial organization is the method that man has built up to satisfy his wants.

The wants that are of economic importance may be described as follows:

1. **Physical wants.** Among civilized men these are restrained and only satisfied at intervals while among primitive people no such restraint is exercised.

2. **Specific wants** may be satisfied for a limited period of time. A meal satisfies one's desire for food but for only a limited time, then we get hungry again. Similarly with clothes for a limited period of time.

3. Wants are **competing** for our attention, and we can only satisfy a few of these at the cost of denying the others. A wise choice between competing wants, means wisdom in spending money.

4. **Substituting** of one satisfaction by another occurs when the difficulty of satisfying a want becomes too great. Then we make some other thing "just as good" serve our purpose.

5. Certain wants are **complementary**. An **automobile** requires a **garage** as its complement. A good **dinner** requires **salt**.

6. Wants are **recurring** so far as an individual is concerned. But when large numbers of people are considered together these recurring wants become continuous. These recurring individual wants become continuous community requirements. "In human wants and their satisfaction we have the clue that explains the production of goods."

**Consumption:** "The consumption of goods is their use in a manner that will give direct satisfaction to the user." The **destruction** of machinery in the process of production, and the **using up of wheat** to make flour are not consumption. **Consumption** only occurs when goods are used to **yield direct satisfaction to the user**.

**Incomes** are spent in various ways according to the class to which the spending family belongs. The percentages spent to satisfy different wants are not the same for



different countries, but the principles quoted in the text hold fairly constant for most civilized countries.

**N.B.—Learn carefully the four principles enunciated on pages 16 and 17 of the text.**

Engel's investigations were followed by other students and as a result the term "**standard of living**" has come into general use. In Canada the present premier, Mackenzie King, while associated with the Federal Department of Labor, started the practice of compiling a monthly statement of the weekly cost of living for a laborer's family (of five). This "**cost of living**" established by an independent and unbiassed authority, has been of considerable help in settling disputes between capital and labor.

The Phrase "**standard of living**" may apply to two distinct meanings:

(a) Actual expenditures on living costs.

(b) An ideal standard toward which we are aiming. This second "**standard of living**" may **cause us to keep our actual expenditure low**, so as to achieve in the future the ideal standard toward which we are aiming; or it may cause us to spend unwisely and extravagantly "to keep up appearances."

The general principle that "those nations with a **high standard of living**, and those who restrain their present consumption with a view to future returns are those which today lead the industrial field." Even in the United States and Canada the financial control which the cities of the Atlantic coast exercise over the rest of the continent, is the result of the accumulation of generations of saving.

## STUDY QUESTIONS

1. What is the essential difference between industry in primitive communities and the industry of present civilized communities?
2. How do modern industrial workers co-operate to secure for each the things he requires for his living?
3. What is meant by specialization in industry? Why has this taken place?
4. What is the purpose of industrial organization?
5. How has the co-operation arising out of our specialization in industry, affected our methods of exchange?
6. Why is so large a proportion of the workers of Canada engaged in the extractive industries?
7. What is meant by the process of "ripening" manufactured goods?
8. What is meant by the term "Economics"?
9. Why have people become so much more interested in Economics in recent years?
10. Explain the following types of wants in so far as they affect the study of Economics: (a) Physical wants;



(b) Specific wants; (c) Competing wants; (d) Complementary wants; (e) Recurring wants.

11. Explain the principle of **substitution** as it applies to the satisfaction of competing wants.

12. Define consumption.

13. What four principles governing the expenditure of families were enunciated by Engel?

14. What is the purpose of the weekly budget for a family of five issued each month by the Federal Department of Labour?

## PART B.

### Chapter III.—Production, Goods, and Wealth.

1. Production—Instead of depending upon the free gifts of nature to satisfy his needs, man has learned how to combine his own powers with the action of natural forces, so as to increase the quantity of goods he may enjoy, as well as to improve their quality. For example:

(a) Fruits grow wild but **cultivation** and **care** give us more and better apples, plums, etc. Likewise **wild** animals may provide food and clothing, but domesticated cattle, sheep, etc., not only provide a more assured supply, but also a much **larger** supply.

(b) Man can **change the form of certain natural materials** in the earth's surface to suit his needs. Ores of iron and other minerals may be smelted to produce materials to satisfy human wants. He may further change these metals and combine them with other materials to produce machines or other goods to satisfy human needs.

(c) **Transportation** of goods from one place to another may increase their usefulness. Surplus wheat in Western Canada when transported to England meets a more urgent want than if it were left here.

(d) **Keeping** goods such as eggs, vegetables and ice from one season to another increases their usefulness, and their capacity to give satisfaction. Production, as a process starts with the materials or forces of nature and is completed when the materials being worked upon are ready for consumption. It includes all the above processes. **If this process succeeds in achieving something that satisfies wants, it is called production.**

2. Goods, produced as above, are called **Economic goods**. But **Free Goods** occur in nature under two conditions:

(1) They must be capable of being appropriated and enjoyed directly.

(2) There must be enough available to supply the wants of all.

(3) It must be impossible for one person or a group of persons to monopolize such a good. Air and water in most conditions are such goods. Water pumped into a city water supply ceases to be such a good, and cooled or heated air in a city home or hotel is not a free good. Economic



goods are materials which directly or indirectly satisfy wants and which do not exist in sufficiently large quantities to satisfy all desires for them.

**Wealth** consists in a **large aggregate of tangible economic goods**.

Intangible satisfactions such as the services of professional workers, are sometimes classed as **immaterial wealth**.

## Chapter IV.—The Factors of Production

Land, Labour, Capital, and Organization.

Primitive man needed land and labour to satisfy his wants and could not progress very far without some **capital** goods. Modern life would be impossible without the last factor, **organization**.

1. **Land**—All the endowment of nature used to produce **economic goods** is called **land**. This includes fertile soil, climatic advantages, water power, minerals as well as such incidentals as natural fishing grounds, natural gas, etc.

(Note carefully the five different services of land as a factor of production, enumerated on pages 24 and 25.)

2. **Labour** is any exertion either of mind or body undergone, partly or wholly, for the purpose of achieving some good other than the pleasure derived directly from the exertion. We exert ourselves in play for "the fun of the thing." We may enjoy our work, but we work, not for the fun we get out of it, but for the salary or wages we get, or the thing we intend to enjoy after our work has produced it. This definition includes the work of the organizer, but because of the importance of the position occupied by him in modern industry, and because he gets his return from industry in a different way from other types of workers, it is given a different classification and called **profits**.

3. **Capital** includes all forms of wealth (exclusive of land) which are not used up in direct enjoyment, but are employed in the further production of wealth. The various forms of wealth so used may be classified as follows:

(1) Factories, tools and machinery used in changing the forms of commodities.

(2) Raw and unfinished materials.

(3) Means of storage and transportation.

(4) Domesticated animals employed in production.

(5) Finished goods in the hands of merchants.

(6) Gold and other forms of wealth in the hands of bankers.

**Capital** as an economic term is distinguished from land in that it is the **result of human industry and saving**, while land is nature's free gift.

The use of capital makes possible much production of goods that would otherwise be very difficult or even impossible.

Capital is described as **fixed** when it is in the form of **machines, factories or tools**. It is called **circulating capital** when it is in the form of **raw or unfinished materials which lose their identity** in a finished product. Fixed capital, like



a flour mill, does not change its form by playing its part in production. Circulating capital, like wheat, loses its identity in flour and later in bread or pastry.

4. **Organization** includes the **estimating of what goods are wanted by the public**, and the **bringing together** into productive operation **the three other factors of production** to produce these goods. In such businesses as small farms or shops operated by their owner, the work of organization cannot easily be separated from the other operations of the business, but in modern large scale industries it plays a fairly distinct and increasingly important part.

The "entrepreneur," is responsible for the risks of production and in case his costs are greater than his returns from the sale of his products, the loss is his own, and if profits are large he takes these as his return in place of salary or wages.

### STUDY QUESTIONS

1. What is meant by production?
2. What are the four characteristic ways in which production takes place?
3. What is the test of successful production?
4. How may Economic Goods be distinguished from Free Goods?
5. What is meant by the term Wealth?
6. How does immaterial wealth differ from the general meaning of the term Wealth?
7. What are the four factors of production?
8. In what ways are land and capital alike from the point of view of the producer? How does capital differ from land from the point of view of the economist?
9. Define labour. Why is professional sport considered as labour by the economist?
10. What are five significant aspects of the value of land from the point of view of production?
11. Define capital?
12. Enumerate and explain six important forms of capital.
13. Why is capitalistic production said to be round-about production?
14. Distinguish between fixed and circulating capital?
15. Why is the work of the entrepreneur considered separately from other forms of labour by the economist?

### EXAMINATION QUESTIONS

1. Write a brief analysis of the population of Canada from an economic point of view, enumerating the chief economic classes and commenting upon the numbers and relative importance of each class.
2. Explain the part played by wants in our industrial life and make clear the application of the following terms

to our wants for economic goods: Physical, specific, competing, substituting, complementary, and recurring.

3. Explain the following economic terms: Consumption, production, standard of living, Economic Goods, Free Goods, Wealth.

4. Enumerate and explain under the four headings: Land, Capital, Labour, and organization, the various elements and factors that enter into production in some particular local business.

## Grade XI. HISTORY AND ECONOMICS Lesson 2

### PART A.

#### Chapter V.

1. Primary Industries—Agriculture, mining, lumbering, fishing and hunting are connected with the **initial appropriation of nature's store**. These industries are sometimes classified as:

(a) Extractive industries which take nature's stores; e.g., minerals, which are incapable of replacement.

(b) Genetic industries which appropriate only the **natural increase** without impoverishing the powers of nature which gives the increase. Hydro-Electric power companies use only the water power that would otherwise be wasted. Power companies using coal as their source of power, destroy coal deposits. The first is a **genetic industry**; the second, extractive. Often the term Extractive Industries is used to mean **all primary industries**.

2. **The Law of Diminishing Returns**—This law applies to all extractive industries. Briefly stated it means that the first unit of labour and capital applied to a certain industry is the most productive, and that a second similar unit of labour and capital applied to the same industry will be less productive than the first, and the third unit less productive than the second and so on.

For example, if a coal mining industry is to be started in a certain region, and a unit of twenty thousand dollars' capital and the labour of twenty men makes an efficient producing unit, this first unit of capital and labour will ordinarily be applied to the coal seam that is most easily worked, contains the best grade of coal available and is handiest to its market. If another similar unit is applied to the same mine, it will have to be used in ways that are not so productive as the first unit. Or it may be applied to another mine of inferior grade of coal, to a more difficult seam of coal to mine, or one farther from its market.

This law applies intensively, that is to say to successive units used in the same mine. It also applies extensively, that is to say to new mines that may be opened up. The **marginal unit**, is that unit which yields the least return whether applied extensively or intensively.

(Study carefully the table and explanation on page 34 of the text.)



**3. Effect of improved methods of farming**—Any general improvement in farming methods may bring an apparent denial of the law of diminishing returns. This denial is, however, only apparent. The same law applies, but the basis is changed. The change in methods merely changes what should be understood by the term "efficient unit of labour and capital." A succession of improved methods may for a time defer the operation of the law of diminishing returns, but where an industry becomes stabilized, its operation becomes apparent at once.

**4. Effect of Increase of Population**—As a general rule, the yield on marginal unit both extensive and intensive in agriculture becomes smaller as more and more land is brought under cultivation, and more intensive cultivation is applied to old lands.

**5. Cheap methods of transportation** have brought the farming areas of such new lands as Western Canada and the United States into competition with European farmers.

Intensive cultivation occurs when small holdings of land are highly cultivated.

Extensive cultivation occurs when considerable areas are slightly cultivated for comparatively small yields.

The richest wheat fields of England and France were kept under cultivation by intensive culture even in competition with the prairie lands of Western Canada and the United States.

N.B.—Be sure you understand the application of the law of diminishing returns as explained on page 37 of the text.

**6. Canada's vast natural resources** have made farming, lumbering, mining and other extractive industries of great importance in her economic life.

(Read carefully the section on Agriculture on pages 37, 38, 39 of text, noting the following points:

(a) Areas in East and West fit for tillage.

(b) The character of this industry in Ontario and Quebec as contrasted with the western provinces.

(c) The gradual replacement of "wheat-mining of the soil" by mixed farming in the Western Provinces.

**7. Ontario, Quebec, and British Columbia** are the chief producing provinces for forest products. Pulp and paper products, lumber, lath and shingles amount in value to \$400,000,000 annually. The rapid depletion of available reserves through fire and wasteful exploitation has led to a movement for their conservation. This conservation program has come none too soon if it is to achieve an adequate success.

**8. The mineral resources of Canada** cannot be accurately estimated but they are known to be large. The total production for 1921 amounted in value to nearly 172½ millions of dollars. Of this Alberta was fourth in the importance of its production with 17% of the total; and coal, gold and cements were the most important minerals.

Considerable values in silver, nickle and copper were also produced.

## Chapter VI.—The Manufacturing Industries

Modern industry is marked by **machine** production in place of the hand production of earlier times.

1. The series of inventions that brought about this transformation started about the middle of the eighteenth century. The first machines depended upon water power, but the development of the steam engine by Watt made it possible to establish factories away from streams. **Canals** provided **cheap transport** and later **locomotives** and **railways** largely replaced these. More recently **electricity** has been developed as a motive power. The outlines of modern industrial life were apparent by 1830, but inventions and machine production seem to become more and more important. In the past half century **rural living conditions** have been greatly improved, by **easier and more rapid communication** and **new agricultural machinery**.

2. To take full advantage of the newly invented machines **labour had to be highly specialized**. The product which had originally been the work of a single craftsman has now become the result of an industrial process involving many men and a good deal of machinery. As a result of this new process, **the product per labourer has been tremendously increased**.

N.B.—The quoted instances of pin making and meat packing on pages 43 and 44 of the text.

3. The advantages to be derived from specialization of industry arise in its three different phases as follows:

(a) At an early stage in the evolution of society **crafts**, such as boot-making, boat-making, etc., arise, and the result of this division is in general **more and better products** for all concerned.

(b) Within an industry itself **processes are divided** and subdivided as in the case of pin-making quoted from Adam Smith, with the same result as in (a).

(c) **Specialization of certain communities** in the products for which their community has some outstanding natural advantage.

4. This localization of industries in certain well defined areas usually arises from one or more of the following advantages:

(1) Nearness to raw materials (milling and meat packing industries).

(2) Nearness to markets.

(3) Availability of cheap power (water power).

(4) Favouring climate (spinning and weaving in Lancashire).

(5) Labour supply.

(6) Abundance of available capital.

(7) An early start as in London, England.

5. The wide use of machinery has led to standardization not only of products, but also of all machines and their



parts. Flour, apples, tobaccos, and practically all other sorts of economic goods are graded according to accepted standards. Repairs can be made much more quickly and simply when one standard part can replace another, instead of having a special part made to replace a broken part.

#### 6. Advantages of Large Scale Production

(1) It makes possible the use of highly specialized machinery.

(2) Also highly specialized labour.

(3) By-products can be profitably utilized, that would otherwise be wasted.

(4) Repairs and accessories can be produced by the main industry.

(5) It can undertake research into improvements in manufacture.

(6) Can purchase raw material in quantity and more cheaply.

(7) Its selling force can be more effectively organized and directed.

7. These advantages for large scale production in manufacturing industries, have made it **possible to greatly reduce the cost of each unit**. As the size of the manufacturing plant increases, this steadily lowering cost of production makes the profits on capital and labour greater. This in direct contrast to the law of diminishing returns in extractive industries. This so-called "Law of Increasing Returns," applies, with only rare exceptions to all manufacturing industries.

As in the case of the law of diminishing returns so with the law of increasing returns, there comes a point in the increasing size of an industry where this rule fails to operate further, but in many cases this point comes only when the aggregations of capital are huge, even for modern times.

8. Note and compare the values of products of Canadian Manufacturers, by industries; the amounts of invested capital in each; the importance of each province in Canadian manufacturing; and the net added value produced by Canadian factories.

### STUDY QUESTIONS

1. How do genetic industries differ from purely extractive industries?

2. What is meant by the Law of Diminishing Returns?

3. How does the above law apply **extensively** to extractive industries? Intensively?

4. What is meant by the marginal unit of production in an extractive industry?

5. How do improved methods of production, increase of population, and cheap transportation affect the applica-

tion of the Law of Diminishing Returns, to agriculture in Europe?

6. Compare the condition and products of agriculture in Eastern Canada with the same industry in the four western provinces.

7. What means have Canadian governments adopted to prevent waste of timber resources, and why have they done this?

8. What are the chief minerals of Canada, and how do the provinces rank in the production of these?

9. How have inventions changed the manufacturing industries in recent years?

10. Give some examples of the advantages of division of labour in modern industry?

11. In what three ways have the advantages of division of labour brought about specialization in modern industry?

12. How does standardization of manufactured products increase efficiency in manufacturing processes?

13. What is meant by the law of increasing returns in manufacturing industries?

14. What was the cost of raw materials used in Canadian manufactures in 1919? The value of the finished products? The net value added by manufacturing processes?

## PART B.

### Chapter VII.—Business Organization

There are five forms: (a) Individual; (b) Partnership; (c) Corporation; (d) Government department; (e) Co-operative association.

1. The **individual system** has particular advantages for small enterprises, as follows:

(1) An interested management with an incentive to make the business as efficient and productive as possible.

(2) Unified control facilitating prompt decision and action.

(3) Secrecy.

It has the following general disadvantages:

(1) It may grow beyond the control of an individual.

(2) It is often difficult to secure funds for expansion.

(3) The death of the owner usually destroys continuity of management.

2. **Partnership**—Any partner may bind the partnership to a contract and all partners are individually liable for any losses.

Its advantages are:

(1) That the various partners may each specialize on some phase of a large business.

(2) That the combined financial resources are available to carry on the combined business.



Its disadvantages are:

(1) The joint liability is a serious danger to the wealthiest member of a partnership.

(2) The death of one partner dissolves the partnership and brings about legal and other difficulties of re-organization.

3. **Corporation System**—"A corporation is a body consisting of a number of persons, natural or artificial, established by law for **some specific purpose** or **purposes** and continued by a succession of members."

N.B.—Study carefully the explanation of this system as given on pages 53, 54, 55, 56, and 57 of the text. Note carefully the following facts:

Advantages:

(1) Continuous life; does not dissolve with the death of the owners.

(2) Limited liability; Bank stock owners in Canada carry a double liability to pay a second hundred dollars for every hundred dollars of bank stock held. Other corporations involve shareholders only up to the paid-up value of the stock, and once the stock is paid for, liability ceases. Corporations therefore find it easier to secure new capital, since investors know their liabilities.

Two types of Corporations:

(1) Public corporations, such as municipalities.

(2) Private corporations, such as clubs, societies and business concerns.

4. There are two methods of incorporation:

(a) By special legislative act passed to create a particular corporation as in the case of a bank or a railway company.

(b) Under an "Enabling Act," by which a specified officer of the government may grant charters under the conditions laid down by the act to those who make application.

A corporation acts through **officers** appointed by and responsible to a **Board of Directors**, elected by the **shareholders**.

Shareholders are entitled to vote at meetings of the corporations, elect directors, receive annual statements, and dividends. **Share certificates**, the evidence of ownership in a corporation, are **transferred easily** from one person to another.

5. Borrowings of corporations are represented by debentures or bonds, on which **interest** is paid. A bond represents a **debt** of the corporation to the bondholder.

Stockholders share in the **ownership** of the property of the corporation, and receive **dividends** from **profits**.

Stock exchanges are centres where entrepreneurs in need of funds bargain with investors.

6. Co-operative concerns in **Europe** have been chiefly **buying concerns**, and have been very successful particularly in England and Scotland. In **Canada** they are chiefly **producers' associations** organized for the selling of special

products. In Alberta, the best known are the United Grain Growers and the wheat pool. The first is practically a profit-making concern engaged in all sorts of business. The latter is still new but has for its purpose the securing of a better price for the farmer, by controlling marketing conditions.

(Note some of the other co-operative organizations in the prairie provinces and British Columbia.)

Borrowing from European experience, co-operative **banks and credit associations** have established themselves, particularly in Quebec.

The weakness of co-operative business lies in its frequent neglect to produce skilled management. Its advantages are:

(1) It extends the practice of self help; (2) It tends to eliminate exploitation by a middle man; and (3) It strengthens the life of the social group.

7. **Government Industries**—The Post Office business is almost universally a government enterprise. In municipalities public utilities are often owned and operated by municipal governments. In Alberta, telephones are the care of the provincial government.

The danger of incompetent and unprogressive management can only be avoided by public vigilance and the intelligent use of the ballot.

## STUDY QUESTIONS

1. What are the five main types of business organization in modern business?

2. Enumerate the chief advantages and disadvantages of the individual type of business enterprise.

3. What are the chief disadvantages of the partnership form of business enterprise?

4. Define "corporation" as applied to business enterprise.

5. How does the income of a shareholder in a corporation differ in character from the income of the bond-holder of the same corporation?

6. In what two ways may corporations be legally formed?

7. What is meant by preferred stock?

8. What are the chief advantages of the corporation form of business enterprise?

9. What are the functions of the Board of Directors of a Corporation?

10. What are the chief advantages and disadvantages of Co-operative Organizations as forms of business enterprise?

11. Enumerate some of the chief co-operative concerns in Alberta and Saskatchewan explaining their purpose and achievement.



12. Who was responsible for the beginning of co-operative credit organizations in Canada?

13. What is the chief danger to government industries? How can this danger be avoided?

### EXAMINATION QUESTIONS

1. State concisely the law of diminishing returns in extractive industries, and explain at some length the application of this law to some Canadian industry.

2. Enumerate and explain the factors in manufacturing industries that make effective the law of increasing returns.

3. Enumerate and explain the advantages of large scale production in manufacturing.

4. Compare the corporation system with the other systems of private business enterprise so as to show its advantages and weaknesses.

5. Write a brief account of co-operative organization as a type of business organization and of its use in the various provinces in Canada.

## Grade XI. HISTORY AND ECONOMICS Lesson 3

Text: McGibbon—Introduction to Economics

### PART A.

#### Chapter VIII.—Exchange.

1. Exchange of goods is carried on so that persons may have the **amounts** and **varieties** of goods that will yield them the greatest satisfaction. Among civilized nations the awkward system of **barter** has been replaced by a **money** system of exchange.

Advantages of exchange are:

(1) Goods not otherwise obtainable, such as tropical fruits in a temperate climate are made available by exchange.

(2) The varied demands of a single community can often be more completely satisfied if exchange is possible. One man has a black colt and wants a bay colt, which his neighbour has. The neighbour prefers the black. An exchange yields **added satisfaction** to both.

(3) Exchange makes it possible to take advantage of the economies in production resulting from the **division of labour**. This division of labour leads to the unconscious co-operation of exchange which embraces the whole civilized world.

(4) Markets are the places where various kinds of exchange centre. In the case of wheat, the producers' local market is the country elevator. The great world markets are at Chicago, Winnipeg, Liverpool, Hamburg, and Marseilles. The term market has come to mean, not a particular place, but the whole of any region in which buying and

selling is freely carried on. We speak of the **Canadian market** for manufactured goods, and the **European market** for wheat or livestock.

(5) To help in the exchange of one set of goods for another, we have adopted the practice of using a single commodity, money, by which to measure the value of all other commodities.

"The rate at which a unit of any commodity will exchange for units of money, is its price."

The commodity which can be purchased for a small amount of money is **low priced** while a **high priced** commodity is one which can be purchased only by giving for it a large amount of money.

Another use of these terms is as follows: When the amount of money required to purchase a unit of a certain commodity is larger than usual we say that it is **high priced**, and conversely when it can be purchased for less money than usual we say that it is **low priced**.

N.B.—Study carefully the tables and explanations on pages 65 and 66 of the text showing how buyers and sellers arrive at a market price.

(6) Market Price—This is arrived at by establishing the point at which the actual supply of goods for sale at this price is taken by the buyers on the market at this price. If buyers will not take all of a commodity offered at a certain price, the price will go down. If actual buyers want more than is actually available at the existing price, the price will go up.

(7) Read carefully the section on supply and demand on pages 67, 68, 69 and 70. Note the following facts: How an increase in price may decrease the amount of a commodity available; and how a decrease in price may cause demand for a time to slacken.

Increased price may cause **increased production** and decreased price may **decrease production** of a particular commodity.

Demand is said to be **elastic when it responds sharply to slight changes in the price of commodities**; **inelastic** when it does not so change.

Study the definitions of composite demand, composite supply, joint supply, joint demand.

Note the part played by substitutes in fixing the market price of a given commodity.

## Chapter IX.—Money

1. Barter, as a means of exchange is awkward because:

(a) It requires that the person who wishes to exchange must not only find **someone who wants the thing he has to offer**, but **someone who can offer in exchange just the thing he wants for his goods**. A. will not exchange goods



until he finds B. who can give him exactly the thing he wants in exchange.

Other difficulties arise:

(b) The owner of a valuable article would be unable to barter it for a series of less valuable articles; such as, a horse for shoes, a knife, and a coat.

(c) The uncertainty of barter, makes impossible regular exchange, and the consequent division of labour.

2. (a) Money has developed as a more convenient method of exchange. It makes unnecessary the double coincidence of barter. The man with the horse can get **money** for his horse, and purchase with his money a coat, shoes, and a knife at different places. Money is a "**medium of exchange**," since it is given and accepted in exchange for all kinds of goods, and the amount of money can be adjusted to suit the exact needs of the exchange.

(b) Money is used as a "**measure of value**." Farms, houses, railways, etc., can be valued in terms of money, when no exchange is seriously contemplated.

(c) Money, because it acts as a standard of deferred payments, and certain kinds of money such as dominion notes and gold are by law made "legal tender," in payment of debts. To make money satisfactory for this purpose it must have "**stability of value**." If certain commodities such as fruit or wheat were used as money, its value would change from year to year, and it would be a very unsatisfactory standard for repayment of borrowings.

3. Gold or silver, since they are usually acceptable everywhere are now the commodities used as money in most countries.

4. The world's supply of gold, accumulated through the centuries, is so large that a very large addition to it would be necessary before any great change could be made in its value.

(a) The qualities that make gold and silver suitable as money are: (1) **acceptability**, (2) **portability**, (3) **cognizability**, (4) **divisibility**, (5) **durability**, (6) **homogeneity**, (7) **recoinage**.

N.B.—Look up the meaning of these words in some good dictionary and see how they apply to gold.

Except for China, where silver is used as a standard money, gold is the standard money and silver is used only as a **supplementary** metal.

(b) The **subsidiary coinage** of various nations made of silver, copper, etc., depends for its value on the fact that these coins are redeemable in gold by the government that issues them. For example, the quarter and half dollar silver pieces of Canada or the U.S.A. contain silver worth less than half of their face value, but are actually worth their stamped value because the United States government will pay gold for these coins on demand.

(c) The Canadian **decimal** system of dollars and cents

is of Spanish origin. The Canadian dollar contains 23.2 grains of pure gold with alloy added to give it hardness.

To avoid wastage in handling gold coins, the general practice in the United States and Canada has been to keep the gold in reserve in the mint at Ottawa or in banks and to issue **Dominion notes** or **bank notes** as claims against this reserve, redeemable on demand in gold.

These notes circulate as money and are known as "**fiduciary currency**." Dominion notes are legal tender and the amount of gold kept in reserve at Ottawa to redeem these notes is determined by the Dominion government. Chartered Banks issue **bank notes** of five dollars and multiples of five, but their right to issue these is carefully regulated by Dominion statute.

Study carefully the note at the bottom of page 79 of the text.

### STUDY QUESTIONS

1. What are the chief advantages of an efficient system of exchange?
2. When are goods said to be "high priced"? When "low priced"?
3. What is meant by the term "demand"? What is meant by "supply"?
4. How is the market price of a commodity determined with regard to supply and demand?
5. In what two opposite ways may a high market price affect the "supply" of a commodity?
6. How does a rise in the market price usually affect the production of a commodity?
7. What is meant by each of the following terms as applied to demand: elastic, joint, composite?
8. How does the use of substitutes affect the demand for a certain commodity?
9. Why is barter an inefficient method of exchange?
10. Explain the uses of money as a medium of exchange, a standard of value, and a standard of deferred payments.
11. Why have gold and silver become universally adopted as the commodities used for money?
12. What qualities of gold tend to make it efficient as money?
13. What is the estimated quantity of the world's gold supply? Why does this tend to make the value of gold stable?
14. What is meant by "fiduciary currency"? What two sorts of such currency are in use in Canada?
15. What security does the Dominion government keep for the redemption of its notes? How is the note issue of the banks limited and secured?



## Chapter X.—Credit and Banking

N.B.—This chapter deals with the most difficult and one of the most important and practical topics in the whole field of Economics. For teachers of the subject it is recommended that they read the chapters on Money and Banking in any one of the following texts on the principles of Economics:

**Seager**—Introduction to Economics.

**Marshall**—The Principles of Political Economy.

**Johnson**—Introduction to Economics.

**For longer and more careful study** the following are recommended:

**Scott**—Money and Banking.

**Fisher**—Quantity Theory of Money.

**Laughlin**—Value Theory of Money.

### 1. Credit.

(a) The simplest type of credit is “trade credit,” where merchants like grocers sell goods on the understanding that they will be paid at some time in the future. Such credit is merely **incidental** to the main business of selling trade goods.

(b) Organizations such as banks, mortgage companies, trust and loan companies, bond and brokerage houses make their **entire business** centre round dealings in credits. The goods **they buy and sell are chiefly credits** of one sort or another.

### 2. Commercial Banks which accept deposits and **make loans for short periods of time.**

(a) Banks secure the capital necessary to start business from their shareholders.

(b) Depositors in savings accounts add to this capital.

(c) Banks also lend to customers purchasing power for short periods of time.

3. The purchasing power loaned by the banks to business men is **not money** but the **bank's own credit**. The banker making the loan receives a promissory note with interest, payable at some future date, usually a short term, and in return **gives the customer an account in the bank** against which he **may draw cheques**, or from which he may secure **bank-notes** or **legal tender** as his need requires.

### 4. Cheques have the following advantages:

(a) They minimize dangers of theft or loss of large sums.

(b) The cheque if cashed is a receipt for amount paid.

(c) It eliminates difficulties in making change. On the other hand, a cheque does not circulate as currency like bank notes, because **its value depends upon the integrity of the person issuing the cheque.**

The bank deals in credits, buying the little known

credit of its customers, and issuing in exchange for it, its own widely known forms of credit.

The issue of the bank's credit to be used by its customers makes it necessary **to pay out** funds. The bank **has received** in exchange for its own credit, **the credit of its customers**, which **causes the payment in to the bank of funds from customers**. The **payments in** must be greater than **payments out** over a period of time if the bank's business is to be profitable, but to take care of short periods where the **payments in**, may not match **payments out**, a **reserve of funds** must be kept on hand.

5. This **reserve** consists of the money put into the bank by the shareholders and of savings deposits. **The larger this reserve, the greater the amount of credit given by the bank** to its customers and consequently **the greater** is likely to be **its profits**.

6. The use of credit instruments, cheques, drafts, etc., involves the settlement of accounts between banks. This is done through a "clearing house." Each bank has received during the day cheques payable by other banks. Instead of settling by payment in legal tender the whole amount of each bank's claims on the others, the totals are set off one against the other and the settlement of balances only, made by payment of legal tender. For example:

If the Royal Bank of Edmonton has \$25,000.00 in cheques payable by the Bank of Commerce, and the Bank of Commerce has cheques payable by the Royal Bank to the amount of \$25,600.00, the Royal Bank would pay the Bank of Commerce \$600.00 in legal tender through the clearing house. Thus a payment of \$600.00 would settle debts amounting to \$50,600.00. Where numerous banks are involved, a set off system of debts and credits cuts the amount of money actually paid to the smallest possible amount.

7. Short-term credit as supplied by the commercial banks is admirably suited to the needs of manufacturing, trade and commerce. It does not, however, meet the needs of the farmer who needs funds for a longer period, usually from six months to a year for current needs.

8. Long term credit required **for the purchase of fixed capital**, is the special business of mortgage companies, and bond houses. Mortgages provide that if the interest on the sum borrowed is not paid on the due date or if the capital sum is not repaid as agreed, the holder of the mortgage may seize the mortgaged property. This right usually renders mortgages a safe investment.

Mortgage companies in Alberta usually secure a part of the capital they use by selling debentures of their own and re-investing the proceeds of these debentures in mortgages at a higher rate of interest.

9. The bond houses of the east merely act as buyers and sellers of bonds. Companies or municipalities who wish to borrow money for a term of years issue bonds. These



are sold in a block to bond dealers, who sell them in turn to individual investors.

10. Canada like England, keeps her commercial **banks** with their **short term credit** separate from the organizations which deal in **long term credit**. In Germany the Reichbank and other commercial banking concerns deal freely in both forms of credit. In the United States, Trust and Guaranty Companies do a similar mixed credit business.

11. An efficient credit system has the following advantages:

(1) It facilitates exchange and economizes gold.

(2) It allows businesses to operate with comparatively small capital.

(3) It makes possible the consolidation of small savings for use in bulk.

(4) It enables society to satisfy wants by making for readier mobilization of industrial and financial resources.

## STUDY QUESTIONS

1. How does "trade credit" function?

2. In what way does "bank credit" differ essentially from "trade credit"?

3. What does the bank lend to its customers in return for their credit?

4. What are the chief advantages of cheques as a means of payment?

5. Why do not cheques and other credit instruments circulate freely?

6. What is the chief purpose of a bank's reserve?

7. From what sources is this reserve created and maintained?

8. Why do commercial banks seek to attract savings accounts?

9. What is the purpose of a clearing house? How do banks settle their balances through a clearing house?

10. Why are commercial banks unsatisfactory from the farmer's point of view?

11. From what sources do the mortgage companies of Western Canada secure the funds they use for investment in mortgages?

12. How do the Trust and Guaranty Companies of the United States differ from Canadian and English banking houses in their credit policies?

13. What are the chief advantages of a convenient and flexible credit system?

## EXAMINATION QUESTIONS

1. State and explain as clearly as you can the so-called law of Supply and Demand indicating how these two factors determine market price.

2. (a) Explain the advantages of money over a barter system of exchange; (b) Name and illustrate the various functions performed by money in our modern business world.

3. Write a descriptive account of our Canadian money system explaining the standard used, legal tender and our fiduciary currency.

4. Explain as fully as you can the work of our commercial banks as dealers in credit, comparing their methods and services with those performed by mortgage companies, and the Guaranty and Trust companies of the United States.

## Grade XI. HISTORY AND ECONOMICS Lesson 4

Text: McGibbon—Introduction to Economics

### PART A.

#### Chapter XI.—The Canadian Banking System

1. By the B.N.A. Act control of banking is placed under the control of the Federal parliament. This makes the banking system of Canada uniform throughout the whole country, while in the U.S.A. each state may allow banks to organize under its own laws, in the same way as other businesses do.

2. The Bank Act of Canada is revised every ten years and **charters for new banks are granted only until this revision**, when they may be renewed or cancelled.

3. To establish a bank in Canada requires a **special Act of Incorporation** passed by the Dominion parliament. After this is passed the minimum requirements of the Bank Act have to be met before the bank can open for business.

4. The **minimum requirements** are as follows:

(a) Shares to the amount of \$500,000 must be subscribed, one-half paid up.

(b) \$250,000 must be deposited with the Minister of Finance as evidence of good faith.

(c) Meeting of shareholders decides date of annual meeting, elects directors, and formal organization is completed.

(d) Formal application is made to the Treasury Board for permission to engage in business. This permission is granted if the organization details are in order, and the \$250,000 deposit is returned less \$5,000 which is kept by the Minister of Finance and added to the Circulation redemption fund. This **controlled banking** system is in sharp contrast to American system of **free banking**.



5. The large capital required by the Bank Act, before starting a bank, has limited the number organized and encourages only the stronger institutions to continue in business. Banks are forbidden to pay dividends on paid-up stock at a higher rate than 8% until their Reserves or Rest funds equal 30% of the paid-up capital. Most banks have a reserve equal to or larger than their paid-up capital.

6. The Canadian banking system is one of **branches under the rigid supervision and control of the head office** of each bank. This is in contrast with that of the United States where the usual bank is a single independent unit.

7. The chief executive officer of a bank under the board of directors is the General-Manager. Under him are district superintendents and in charge of each branch is a branch manager. Power to make loans of more than \$25,000 is exercised only by head office; smaller loans are left to the initiative of superintendents and managers of branches.

8. Canadian banks are **forbidden to engage in any trade or business**, to deal in the shares of their own bank stock, or to lend money on them, or **to lend money on the security of real estate mortgages**.

A bank may (a) deal in gold and silver, coin or bullion, (b) deal in discount, (c) lend money and make advances on bills of exchange, promissory notes, and other negotiable securities, (d) accept mortgages on real estate to secure loans already incurred.

9. The legal rate of interest is seven per cent., but by collecting the interest at the time the loan is made the bank can get round this clause of the Bank Act.

10. The banks are allowed to issue bank notes up to the amount of their paid-up capital plus their rest fund. During the crop moving season an additional note issue equal to **fifteen per cent. of the above amount** may be issued by the banks. Further note issues must be secured by gold or Dominion notes deposited in the central gold reserve. The banks must pay five per cent. tax on the fifteen per cent. excess note issue. The Finance Act of 1914 provides for a further note issue.

11. Bank notes are secured by the Bank Act since it makes them a first charge on all the assets of a bank. An elaborately planned and secured Bank Circulation Redemption Fund make certain their redemption at their face value.

12. The shareholders of a bank are legally liable not only to lose the amount of their paid-up capital but an equal sum in addition. These safeguards make bank notes a first class fiduciary currency.

13. The cash reserve kept on hand by the banks varies, and the Bank Act merely requires that forty per cent. of such reserve shall be in Dominion notes. In practice, a much larger percentage than forty is kept in such currency.

14. To prevent failures due to incompetence or fraud at head offices of banks, **shareholders' auditors are chosen**

by the shareholders at their annual meeting to report at the annual meetings.

15. Further precautions are taken by the government; monthly and annual reports are required from the banks as a matter of course; and in case the Minister of Finance has cause to suspect the stability of a bank he may insist on a thorough investigation. Heavy penalties for officials concerned are provided for in case of fraudulent statements.

16. The Canadian Bankers' Association is a voluntary association of the chartered banks of Canada, authorized by special statute. It supervises the printing and cancellation of bank notes, and the management of the central gold reserves. It appoints a curator in case a bank fails. It enables the banks to act together where their common interests are concerned. It is the only approach in Canada to a centralized responsibility for banking and credit.

N.B.—Read carefully the discussion of the merits and demerits of the Canadian Banking system given on pages 98, 99 and 100 of this chapter. Enumerate the advantages claimed for the branch bank system and the criticism to which it is subjected.

## STUDY QUESTIONS

1. Under what authority are Canadian Banks established?
2. What are the minimum requirements, under the Bank Act, before a bank can open for business?
3. Why is the Canadian system of banking described as "controlled" banking?
4. What are the duties and powers of a General Manager, Superintendent, and Local Manager with regard to making loans?
5. What restrictions are placed upon the Banks in the matter of making loans upon Real Estate?
6. Enumerate some of the more important privileges of Banks in the carrying on of their business.
7. What is the rate per cent. legally set as interest? How do Banks evade this statutory limit?
8. What are the legal limits of a bank's note issue?
9. How is the value of bank notes secured? Explain the legal guarantees that bank notes will be redeemed on demand in legal tender.
10. What is meant by the double liability of shareholders?
11. What percentage of the liabilities of Canadian Banks to the public on December 31st, 1921, was covered



by their cash reserves? How is this proportion of reserve to liabilities determined?

12. What are the duties of the shareholders' auditors? How are these selected?

13. Explain briefly some of the duties and powers of the Canadian Bankers' Association.

14. Enumerate some of the advantages claimed for the Canadian branch bank system.

15. Briefly state some of the criticisms of this branch bank system.

## PART B.

### Chapter XII.—Transportation

1. Modern highly specialized industry and the co-operation and exchange which it implies would be impossible without cheap transportation. Primitive methods of transport such as the pack-horse, the caravan or the cart still serve for short distances but the enormously extended range of modern transportation is dependent upon steamship and railway.

2. Modern transport began with the industrial revolution in the latter part of the 18th century. Metcalfe, Macadam and Telford created good roads for Britain, while Brindley, about the same time started the building of inland waterways.

3. Stevenson's locomotive in 1815 made possible the beginnings in railway construction. Great Britain led in this new method of transport while the United States and Canada followed her lead and used it to open up and develop their vast, unoccupied spaces. Two features of this development should be noted: First, the adoption of Stevenson's standard gauge (4' 8½"); second, the consolidation of short lines into vast systems. This second tendency has unified Canadian railways into the two great systems, the Canadian National and the Canadian Pacific.

4. Railway finance has two significant characteristics: First, **huge investment in fixed capital**; second, **a comparatively small gross income annually in proportion to the capital invested**.

5. Fixed charges are those expenses which must be met by a railway company whilst it continues to operate its road and which do not vary in proportion to traffic. Chief among these are interest on Bonds, and taxes.

6. Operating expenses. Of these, part are independent of volume of traffic and part vary with the traffic carried. In the United States it was found by a careful survey of all the railways that practically 60 per cent. of the annual expense of a railway is quite independent of the volume of traffic carried. The prosperity of a railway company is therefore to a very great degree dependent upon the prosperity of the country served by its lines.

7. Charges—A railway in operation depends upon two quite distinct factors: First, its right-of-way, road-bed and tracks which together make a **special type of road**; second, **its equipment**, i.e., rolling stock, etc. Originally, many railways provided only the former factor, leaving it to their clients to provide their own vehicles. A relic of this is to be found in the modern "leased" railway, such as the E.D. & B.C., where the road is the property of one owner and the operation is in the hands of another. This double investment and expense makes the determination of a **satisfactory rate** for passengers and freight very difficult.

The ideal schedule of rates should provide revenue to meet **fixed charges, operation expenses** and a **fair return to the shareholders** on their investment.

8. After the problem of settling an average rate per ton per mile has been determined other factors enter in, to complicate the actual rates. Commodities carried vary in **bulk** and in **value**, making variation in charges necessary.

Another fact is the **cost of services at stations**. This is necessarily a part of the rate charged that does not vary with the length of the haul, and sometimes, as in the case of letters, this is the chief expense to the transportation company.

In addition to these influences the following factors affect the actual rate schedules:

- (a) Competition for traffic between railways.
- (b) Competition between water routes and rail routes.
- (c) Individuals or districts seeking special advantages.

The purpose of officials who fix railway rates is to secure **the largest net return to the company**. Sometimes a low rate and a large amount of traffic will do this. In other cases a high rate and less traffic will bring more net profit to the railway company.

9. **Government regulation** of railway rates is necessary because in many districts the railway has a **monopoly power** that may be used in ways harmful to the communities they serve. The Dominion Government exercises this regulating power generally through an appointed Railway Commission.

10. Steam power and steel ships have made sea-borne traffic **speedy** and **reliable** as well as **cheap**, and accommodation is provided for all sort of commodities. Great canals, the Suez and the Panama, have greatly shortened ocean routes. As a consequence, commodities, particularly bulky or weighty commodities, usually seek **the shortest route to tide water**. E.g., the Pacific grain route from Edmonton.

**Cheap and reliable transport** by land and water has brought the whole world within the scope of a single market. In addition to this transport, and supplementing it, are the **intelligence services** supplied by cable, wireless, telephone and telegraph, which enable the business man to



keep in touch with all parts of the world of trade and commerce from day to day.

### STUDY QUESTIONS

1. What part does modern transportation play in making possible great cities?
2. How has the motor truck affected transport?
3. What parts did Macadam and Brindley play in the development of modern transport systems?
4. What is meant by the standard gauge of railways? How did it originate?
5. What reasons brought about the consolidation of railways into great systems?
6. In railway finance what is meant by fixed charges? By operating expenses?
7. What percentage of the annual expenses of railways is not dependent on the volume of business done?
8. What two distinct services does a railway offer? How does this double service affect the problem of fixing freight rates?
9. How does the value and bulk of commodities carried affect the problem of fixing freight rates?
10. Enumerate some other factors entering into the fixing of a schedule of freight rates.
11. What is the general purpose of railway officials in fixing freight rates?
12. Why is governmental control over railway rates necessary? How is this control exercised in Canada?
13. What changes in ocean transport have made it reliable and speedy as well as cheap?
14. Briefly indicate the effect of cheap transport on the wheat market.

### EXAMINATION QUESTIONS

1. Write a brief account of the powers and privileges of Canadian banks, the conditions required by law for their organization, and the supervision exercised over them by the government.
2. Discuss the advantages and disadvantages claimed for the branch bank system of Canada, comparing this system with the single unit system of free banking in the United States.
3. Explain as fully as you can the problem of fixing equitable freight rates, discussing the various factors that enter into the problem and showing the need for government control of these rates.

Grade XI. **HISTORY AND ECONOMICS** Lesson 5

Text: McGibbon—Introduction to Economics.

## PART A.

**Chapter XIII.—Transportation in Canada**

1. The outstanding facts of Canadian transportation are:

(a) The greatness of her two transcontinental railway systems.

(b) The immense traffic on the Great Lakes.

2. The development of transportation in Canada falls into four periods:

(a) Discovery and development of inland water routes (up to 1850).

(b) The building of railway lines joining separate colonies. The Grand Trunk Railways and the Intercolonial (1850-1870).

(c) The construction of the great transcontinental railways, C.P.R., Grand Trunk Pacific and the Canadian Northern (1870-1915).

(d) The **consolidation** into two great systems **Canadian National** Railways and the **Canadian Pacific** Railways from 1915 to the present.

3. The U.E. Loyalists who first settled Upper Canada in 1784, settled along the waterways provided by the rivers and lakes. Until 1800 these natural routes were left unimproved. But after that period canals were begun to improve this route.

The Welland Canal joining Lake Erie to Lake Ontario was completed in 1829; the Lachine Canal in 1825. Canals at Cornwall, 1843, Beauharnois, 1845, and Williamsburg, 1847, made an outlet to deep sea navigation at Montreal from the Upper Lakes, for moderate sized vessels.

The Rideau Canal, completed in 1834, was constructed between Ottawa and Kingston as an alternative route to that of the St. Lawrence.

4. The whole system of inland waterways from Montreal to Lake Superior has been greatly improved. The canals at Sault Ste. Marie have made possible the shipment of grain and iron ore from the Upper Lakes to Lake Erie in vessels of 12,000 tons burden. Improvement to the **Welland Canal now under way** will admit such vessels to Lake Ontario ports.

An international project now under consideration would allow sea-going vessels to enter inland ports of Chicago, Duluth, and Fort William. This project would greatly benefit the North Western United States and the prairie provinces of Canada. It is strongly opposed by the railway and shipping interests of Montreal and New York.

5. The winter freeze-up of waterways led to the projects of building railways to connect the Canadas and Halifax. The Grand Trunk Railway built a line from Sarnia

to Montreal and secured connection with Portland, Maine, in 1853. Round this main line it built up a system that remained for many years the most important in Ontario.

After Confederation in 1867, the Dominion Government constructed the Intercolonial Railway from Montreal to Halifax, thus completing the original traffic way from Sarnia to Halifax. This road was built so as to avoid the American frontier, making the distance between Halifax and Montreal much greater than the more direct route via the St. John River valley would have been.

The completion of the C.P.R. in 1885 joined British Columbia and Manitoba to the eastern provinces.

6. After some difficulties, political chiefly, had been overcome, the Canadian Pacific Railway Company started construction of the first Canadian transcontinental in 1881, and the main line was completed in 1885. Government subsidies of \$25,000,000 and 25,000,000 acres of land were given to help in the construction of this road. The C.P.R. has also built fleets of vessels on the Pacific and Atlantic as well as on the Great Lakes, and its branch lines connect most of the great cities of Canada; as well with many points in the United States.

7. The demand of the Western provinces for railway service to compete with the C.P.R. caused the Federal Government early in the present century to make an arrangement with the Grand Trunk Railway for the building of a second transcontinental road. The eastern part was to be built by the Canadian government, and the western part from Winnipeg to Prince Rupert by the Grand Trunk. Both parts were to be operated under arrangement with the Grand Trunk Railway.

8. The Canadian Northern Railway with the help of Federal and provincial aid, built a third transcontinental.

9. Because these new railways were unable to meet their fixed charges; i.e., interest on bonds guaranteed by the various governments, they have been taken over by the government and consolidated into one system, the Canadian National Railways, along with the old Intercolonial and its subsidiaries. The original Grand Trunk system was taken over too, with the Grand Trunk Pacific. Immigration halted by the war has not as yet been resumed on any considerable scale. The expense of maintaining these railways is therefore a considerable item in the annual expense of the Dominion government.

10. **To protect the public from oppressive rates and enforce fairness to communities served by our railways, the Dominion Government created the Board of Railway Commissioners, which now has charge of the regulation of telephone, telegraph and express rates also.**

11. To deal with the special problem of grain transport, the Board of Grain Commissioners was established in 1923.

12. Three routes of main traffic for the Dominion are:  
(1) Eastward via the transcontinental railways and the



Great Lakes to Montreal; (2) Eastward via the railways and Lake shipping of the United States; (3) Westward to Vancouver to ships plying through the Panama Canal to Europe.

Considerable expense has been incurred to furnish a route via the Hudson Bay to Europe for grain from the prairies. The short open-water season for this route and the already heavy burden of transportation costs (Canadian National Railways and the Government Merchant Marine) have held up further expenditure on this route, as well as preventing progress on the expensive project of the St. Lawrence deep waterways.

## STUDY QUESTIONS

1. What are the two outstanding facts of Canada's transportation system?

2. Into what four periods does your text divide the development of our transportation system?

3. What transportation routes were opened up and improved after the settlement of Upper Canada by the Loyalists?

4. What was the original purpose of the promoters of the Grand Trunk Railway system?

5. What was the purpose of the building of the Rideau Canal?

6. What function does our canal system now play in our scheme of transportation?

7. Why was the Intercolonial Railway not built by way of the St. John River valley?

8. What help was given by the Canadian government to the C.P.R. to encourage its building of a transcontinental line?

9. What considerations led to the building of the Grand Trunk Pacific Railway?

10. Who built the National Transcontinental Railway? Who operated it?

11. What are the purpose and powers of the Board of Railway Commissioners?

12. What conditions led to the appointment of the Board of Grain Commissioners?

13. What are the three main traffic routes of the Dominion?

14. Why has the completion of the projected Hudson Bay railway been held up?

## PART B.

**Chapter XIV.—The Problem of Distribution**

1. The processes of production, exchange, and consumption are continuous. When taken together they are called an **economic cycle**. This cycle is carried on by the co-operation of great numbers of people.

2. The service contributed by each person to this "cycle," has to be paid for, whether that service be: (1) the loaning of capital; (2) the use of land; (3) the organizing service of the entrepreneur; or (4) the labour of hand or brain engaged in the actual service.

3. Since the price to be paid for each of these services is **determined by supply and demand**, the problem of "distribution" is the study of the conditions that determine the relative size of the shares secured by land, labour, organization, and capital.

**Chapter XV.—Rent:**

Payment for the use of land is known as rent. Land has a double value, i.e.:

(a) Its fertility produces field crops, timber, etc.

(b) Its site value for houses, factories, stores, wharfs, etc.

2. The best locations for towns, factories, shops, etc., used to be limited to **waterways**, and **coastal harbors**. With the construction of railways, the site value of land adjacent to waterways declined and land suitably situated **along railway lines** and at **junction points** came to have site value. **Seaports** that have **suitable communication with the interior** have site value that is greatly increased.

3. New York city is an example of demand for **sites** about a fortunately situated harbour. "Under modern conditions of transportation a very large part of the commerce of the United States flows through this seaport, and as a result there is a great demand for business sites, dockage, and warehouse facilities." **Site** location in such a place is the factor determining the value of land. Similarly in any town, small or large, sites located on certain streets are more **valuable** than on others.

4. Agricultural land: The **value** of agricultural land, and its consequent **rental value** is determined by: (1) what it will grow; and (2) its accessibility to market.

5. The value of **mineral lands** is determined by (1) the richness of the deposit; (2) the ease of mining; (3) value of the product; and (4) the accessibility of the mine. Timber lands vary in value for the same reasons.

Increase of population generally tends to bring about an increase in land values.

Improved means of transportation, making available for use new and fertile areas, may bring about a decrease in the value of land in older communities.

6. Rent is paid for land because of the services it is capable of rendering.

This payment varies in quantity according to advantages of site location, or fertility, or both.

Land that has a **high rental** value, has also a **high sale value**, and conversely **low rental** value means a **low sale value**.

## Chapter XVI.—Wages:

1. The worker is paid for **production services**. Four general classes of workers are directly engaged in the production of wealth: (1) Unskilled labourers; (2) skilled labourers; (3) supervisors, such as foremen, superintendents, chief clerks; (4) business managers. Payments are called wages when made on an hourly, daily or weekly rate of pay; salaries when made on a monthly or yearly basis.

The **supply** of any kind of labour and the **demand** for it, taken together determines the rate of wages, or of salaries.

2. There is always a considerable demand for unskilled labour, but the supply is always large and wages are consequently low. High wages for this type of work would attract workers from other fields. Also in times of depression workmen of this type are the first to be discharged, and when changes in industry occur owing to some new invention, the semi-skilled workmen who are thrown out of employment by the change, tend to become part of the **great army of unskilled workmen**. Unskilled labour suffers therefore not only from low wages, but also from irregularity of employment.

3. Semi-skilled workers, particularly in factories where machines are operated, can usually secure somewhat better wages than unskilled workers. Two reasons are effective to bring this about: (1) The minimum of intelligence and skill required for some of these occupations is sufficient to bar a considerable number of unskilled workers from them; (2) A trained machine operator can do more work with less danger of expensive breakage or waste of raw material than an unskilled untrained operator. If, however, a new invention, or slackness in industry throws these men out of work, they have usually no alternative to unskilled labour, at lower pay.

4. The supply of skilled workers tends to adjust itself to demand. Any skilled trade where there is a shortage of trained workers is replenished fairly quickly by the admission of new apprentices. If there is an oversupply in any trade apprentices will be few, because suitable persons will choose some more attractive trade and the tradesmen themselves seek to prevent more apprentices learning the trade.

5. Periods of depression affect the skilled worker less than the unskilled; and foremen, superintendents, etc., are usually affected still less by fluctuations in industry. This **supervising group** usually consists of skilled artisans who



have shown ability in directive positions. "The smallness of this group in proportion to the demand makes it a **well-paid class**." They rarely, even in the worst times suffer from unemployment.

5. **Business managers** are recruited from the ablest of the preceding class or from a class specially educated or trained before entering the business. Some such managers are recruited from the selling or office departments of a business.

Ability of this special type is essential to the success of the whole enterprise. It is therefore **usually highly paid**.

6. The general effect of increased population is to depress the general rate of wages or salaries. On the other hand a high degree of mechanical skill, an ample supply of efficient machinery and efficient finance may neutralize this tendency to depress wages, and may in fact bring about an increase.

In some countries, such as France, the size of families has decreased and population tends to remain stationary. This presents a pressure of population forcing the rate of wages down.

## STUDY QUESTIONS

1. What is meant by the problem of "distribution" in Economics?

2. What law determines the share received by each factor in production?

3. What is meant by a "Cycle" in the study of Economics?

4. What are the two factors entering into the value of land that cause rent to be paid for it?

5. How did the building of railways affect the rental value of land along waterways?

6. How has the development of modern transportation systems affected rental values at seaports like New York?

7. What four classes of workers are directly engaged in the production of wealth?

8. What conditions tend to make wages for unskilled labour low?

9. Why are those engaged in semi-skilled labour usually more highly paid than unskilled labourers?

10. How is the supply of skilled labour fairly well regulated to meet the demand?

11. What considerable advantages over other workers have the members of the supervising groups?

12. From what classes are business managers drawn? Why are their salaries usually high?

13. How may the tendency of increasing population to depress wages be neutralized?

## EXAMINATION QUESTIONS

1. Write an account of the development of Canadian Railways, from 1850 to the present time, distinguishing the three main periods, and the chief purposes and accomplishments of each period.

2. Write an account of Canadian waterways and their development, showing their relation to the economic life of Canada.

3. Explain the services of the various factors of production in the work of producing wealth and briefly state the economic law under which the payment received by each factor is determined.

4. Explain the reasons why rent is paid for land, and describe the effects on rental values of land of the railway building of the past seventy-five years.

5. Enumerate the four main classes of wage-earners or salaried classes explaining the different returns secured by each for its productive services.

## Grade XI. HISTORY AND ECONOMICS Lesson 6

## PART A.

## Chapter XVII.—Interest

1. Interest is the sum which the borrower pays the lender for the use of ready funds provided by the lender.

The borrower gives the lender a **promise** to repay the loan. This promise may be (a) promissory note, (b) lien note, or (c) mortgage agreement. **Notes** are usually given for **short term** loans, and **mortgages** of some sort for **long term** loans.

2. Banks deal largely in promissory notes. Sometimes the banks accept the note of a borrower for the amount borrowed, and gives him the face of the note in cash. At the date of maturity they receive the **principal plus the interest** at the rate per cent. agreed. Again they may discount the note at the rate agreed and pay the borrower only the amount of the note **less discount**, receiving the face value of the note at the date of maturity.

(Look up your work in Arithmetic on bank discount and interest.)

3. Rates: These are determined by two conditions which determine **demand for loanable funds**, and the **supply** of these funds.

4. **Incentives to saving**—Loanable funds are provided by saving. The incentives for saving are:

(a) The wish to provide for a time when age, sickness, accident or old age will make earning an income impossible.

(b) The wish to provide for dependents.

These wishes are greatly stimulated by life insurance

companies and savings banks. Contributory incentives are:

- (c) The wish to provide wealth or education to give children better careers than the parents have had.
- (d) A philanthropic purpose.
- (e) The saving habit.

The payment of interest is not the prime cause of saving, but it facilitates and encourages it. The **higher the rate of interest**, the greater the incentive to save.

5. Modern borrowers of loanable funds can repay the loans with interest because they use such funds to take advantage of business opportunities which promise profit to themselves over and above the interest which they must pay.

If a farmer saves out of his produce, enough to purchase new machinery, he may use such machinery to greatly increase the product of his farm, and the farmer's own consequent income. If his purchases are wise and his use of machinery well planned, he could afford to borrow money to purchase his machinery and repay both principal and interest to the person who had saved the funds in the first instance, and still make a profit for himself.

**Government borrowings for public works or education** may be repaid out of the **increased productivity resulting from an educated community or from better roads, bridges, etc.** War borrowings on the other hand result in burden of taxation for which there is **no compensating gain in production**.

6. The rate of interest depends primarily upon:

(a) The immediate **supply and demand of loanable funds**.

(b) **Risk**—A high interest rate generally means a considerable risk of loss for the whole investment.

(c) A third condition is the stability of prices. **Falling prices** usually mean **low interest rate**, for two reasons:

(1) The principal increases in value as prices fall.

(2) The demand for loanable funds is likely to be small and only low rates of interest can be secured.

7. In new countries like Western Canada the interest rate is likely to be high because loanable funds are comparatively scarce and often investment is risky. In older countries like Great Britain the rate of interest is likely to be low because the savings of many generations make the supply of funds large.

8. The British, French, and Dutch have been the greatest saving nations. These nations have the necessary qualities of foresight, strength of character, and the ability to deny immediate desires for the sake of future security and satisfaction. They also have had opportunity.

9. In the United States and Canada their expansion has made possible the accumulation of wealth without great self-denial. National saving is one of the conditions of national prosperity. It means: (a) economic independence;



(b) the development of industry and comfort; and (c) the possibility of art.

### Chapter XVIII.—Profits:

1. The **reward** of the entrepreneur comes in the form of profits. The entrepreneur who undertakes to produce any commodity must pay **rent** for land, **interest** on capital invested, **wages** for labour, and the remainder of the gross income of the business comes to the organizer of the enterprise as profits.

2. Often the entrepreneur uses both his own time and money to organize and manage the business. To properly distinguish profits, interest should be allowed on **all** capital invested, and on all operation work including management, before profits are determined. The effort of **organization apart from management** may properly be called the work of the entrepreneur for which profits are the reward.

3. In corporation units of business the shareholders are the entrepreneurs since they assume the risks and all the employed under them from the president, or general managers down to the most unskilled day labourer are paid salaries or wages.

4. The level of profits is regulated by the market price of goods produced. If the profits in any particular type of business become too low, withdrawal of capital and labour from that line of business causes a decrease in production. Less goods of that sort will be offered for sale and if demand continues steady the price will rise. **Higher price** makes the business more **profitable** and again capital and labour will enter the industry, and more goods consequently will be produced. These conditions produce "a tendency for profits to come to a general level of equality."

5. In spite of this tendency, there is often a considerable difference in the profits of different firms engaged in the same industry. Varied degrees of skill on the part of managers account for most of these differences. Unforeseen favourable circumstances sometimes swell the profits of an industry, and unfavourable circumstances sometimes do the opposite.

6. As in the case of interest, risk of loss of investment and failure of the organization must be compensated by higher level of profits in speculative ventures.

7. Competition between rivals has the following effects:

(a) It develops cheaper processes of production through improvements in machinery and organization of staff.

(b) It reduces the price of the finished product and forces inefficient producers out of business.

8. Large scale production makes possible a **large aggregate profit** with a very **small profit per unit of goods**.

9. The attempt of the entrepreneur to lower costs of production means an attempt to force down rent, wages,

and interest paid by him for his productive agencies. He meets opposition from organized labour, those who own land or loanable funds, who naturally wish their returns to be as high as possible. The entrepreneur is the centre round which the conflicts of modern industry gather.

10. A number of highly skilled entrepreneurs will exploit the resources of a community to the greatest advantage. Under our present system their rewards for success are profits and their penalty for lack of skill is failure and loss.

11. Under government and civic enterprise systems, inefficiency of organization is liable to occur for two main reasons:

(a) Legislators who are not risking their own funds are liable to allow political considerations to decide the choice of managers, and to govern the policy of these managers.

(b) Managers so chosen are liable to play safe both politically and economically, instead of developing their businesses as opportunity and need arise.

12. In the case of public services which might become monopolies, the above disadvantage may be more than outweighed by the fact that a public enterprise is not so liable to exploit the consumer by greatly enhanced prices, or the employee by starvation wages as a private monopoly would be.

## STUDY QUESTIONS

1. What is interest? What are the chief forms of business loan on which interest is paid?

2. What is the difference between a "discounted note" and a "straight note"?

3. What are the final or immediate causes of high or low rates of interest?

4. What are the chief incentives to saving?

5. What part does the payment of interest play in the development of saving?

6. What are the two chief types of borrowers in the modern business world?

7. How do war loans differ from other private and public borrowings, in their effect upon the community?

8. What part does risk play in the interest rate?

9. What relation exists between the stability of price levels and the rate of interest?

10. Why is the rate of interest higher in Western Canada than in England?

11. What is meant by "pure profits"? Wages of management?

12. How does "market price" act as a regulator of the level of profits?

13. What effects have the following on the level of pro-

fits in any particular industry: Speculative character; competition; Large scale production?

14. How does the entrepreneur's desire to lower the selling price of his product bring him into conflict with the other factors of production?

15. What are the chief objections to government operation and organization of ordinary industry? How are these objections counterbalanced in the case of public utilities?

## PART B.

### Chapter XIX.—Monopoly

1. Monopolies may be divided into four classes:

(a) **Personal monopolies**, such as the exceptional skill of an artist, actor, or writer.

(b) **Natural monopolies** where unified control instead of competition is demanded by the very nature of the industry. Most public utilities are of this character, as are also transportation and communication enterprises in most cases.

(c) **Legal monopolies**, where the law gives exclusive rights in the operation of a business. Private monopolies of this sort are limited now to those arising out of the grant of copyright to books, plays, etc., and patents to inventions. Government monopolies are of various sorts, the best known of which are the sale of intoxicating liquors and tobacco, and in Alberta telephone service.

(d) **Capitalistic monopolies** arise when entrepreneurs secure sufficient **control of the supply** of any commodity to be able to **dictate its selling price**. **Pools, mergers, trusts, cartels** or **combines** are the names given to a monopoly of this sort.

2. A monopoly is rarely complete. In natural monopolies there are points at which competition exists. Competition for passenger traffic has given similar rates to Calgary and Edmonton, east and west on both the National and C.P.R. In capitalistic monopolies there is competition from substitutes and often from some independent producer outside the monopoly.

3. The public opposition to capitalistic monopolies has arisen from two main causes: (a) **Unfair competition**; and (b) **Monopoly price**. Many competitive enterprises have been forced out of production by one or all of the following methods: (1) **local price cutting** in the area where the small competitor has his market; (2) **forcing retail merchants** to handle its goods and refuse to handle those of a competitor; (3) by a **system of rebates** to dealers who handle its goods to the exclusion of competitive goods.

4. The monopoly by its control of supply can to a considerable extent control the price of its product. The point at which this price is set is where the volume of sales will yield the monopoly its largest net profit.

N.B.—Study carefully the tables on pages 163 and 164 of the text, noting particularly the figures showing **price per**



**unit of goods, number of sales and net profits.** The purpose of a capitalistic monopoly is to control the **selling price** of its goods, and normally it will set its price at a point above the cost of production where it can secure the **largest net return for itself.**

5. A monopoly usually does not exert the full force of its power for three reasons:

(a) The danger of costly **government investigation** and consequent interference.

(b) The danger of competition by **new entrepreneurs** entering its field.

(c) The danger that its customers may purchase **substitutes**, and thus destroy its market.

6. In the United States capitalistic monopolies gained control of such staple commodities as oil, sugar, tobacco, meat, sugar and steel between 1890 and 1900. Investigations under the **Sherman Anti-Trust Law** led to prosecutions in the courts. But legislation and judicial decisions have so far failed to destroy the **actual monopolistic control** of these commodities.

The Canadian "Combines Investigation Act" has not yet been thoroughly tried out.

## **Chapter XX.—Labour Organizations**

1. "The conditions under which a labourer seeks a position often put him at a disadvantage in making a bargain with an employer." These conditions which favour the employer, have too often led to a very low wage level.

2. Workers' organizations for the purpose of equalizing bargaining conditions with an employer were forbidden in England until 1824. An act passed in that year made collective bargaining legal, and since that date labour unions have grown in numbers and strength.

3. There are three main types of union:

(1) The trade or craft union which seeks to link together **all those engaged in the same trade or craft.** Such are the Typographical Union, or the Brotherhood of Locomotive Engineers.

(2) The industrial union which seeks to unite into one union **all those engaged in the same industry** whether they are skilled or unskilled. The United Mine Workers of America are the outstanding example of this class of union.

(3) The labour union which seeks to unite **all workers in all industry** into one big organization. "The Knights of Labour," fifty years ago, and the O.B.U., or One Big Union of recent years are outstanding types of this sort of organization.

4. The aim of all labour organizations is to so improve the position of the worker that he may bargain with his employer on even terms. An employer is dependent upon his labour force to carry on his business, but he is not usually dependent upon the services of an individual employee.

5. The right to collective bargaining carries with it the

right to **strike**. This weapon aims at the stopping of an industry until conditions mutually agreed upon by employer and employee are arranged. It is not used except as a last resort, after negotiations have failed to achieve agreement.

5. The following are some of the important trade union policies:

(a) To build up the financial resources of the union by regular contributions from its members. Out of these reserves, **strike pay** is issued, and **sickness** and **unemployment** help given to members.

(b) To restrict the supply of labour in any given industry by a policy of closed shop and restriction of apprentices to the trade.

(c) A canny policy or sabotage on the job, slowing down the work of individuals on the job so that more persons will be employed on the same work. This policy is rarely advocated in Canada or the U.S.A., but is common practice in English unions. In the long run it is likely to lessen the work to be done in an industry since an increased price will lessen the demand for the product.

6. Unions have helped materially in social betterment by their support of social legislation, particularly in (a) **limiting hours for the work of women and children**; (b) **compensation for accident and insurance against sickness**; (c) establishing a **minimum wage**.

Frequent strikes led to the attempt to protect the public by passing legislation to prevent them. The Lemieux Act or Industrial Disputes Investigation Act has been declared ultra vires by the courts and no longer functions. In New Zealand and Australia, compulsory arbitration and settlement of industrial disputes has been established by labour unions through their political activities.

7. In Canada, 313,320 persons were members of trade unions, about one-tenth of all the persons gainfully occupied. Most of these unions are parts of **international organizations whose membership is largely in the U.S.A.**

8. In England the labour movement has entered politics and is now represented by one of the major parties in the House of Commons. In the United States it has taken no direct part in politics while in Canada the example of England has been followed so that there are labour members in the House of Commons at Ottawa and in the various provincial legislatures.

## STUDY QUESTIONS

1. What are the four types of monopolies?
2. How does a Natural Monopoly differ in character from a Capitalistic Monopoly?
3. What are the chief types of private legal monopolies?
4. What are the business practices usually meant by unfair competition?

5. How is "monopoly price" arrived at?
6. What effective checks are there upon the arbitrary use of power by capitalistic monopolies?
7. What conditions place workers usually at a disadvantage in individual bargaining with employers?
8. What are the three main types of labour organizations and what are the chief characteristics of each type?
9. What was the chief cause of strikes in Canadian industry in 1921?
10. What were the chief purposes of building up a union's financial resources?
11. What is meant by the "closed shop"? By "cannny" policy?
12. What are the chief advantages to workers apart from collective bargaining and higher wages, arising out of the trade union movement?
13. What are the attitudes toward politics taken by the Labour movements of England, United States and Canada?
14. How did procedure under the Lemieux Act differ from that under the compulsory arbitration legislation of New Zealand?

## EXAMINATION QUESTIONS

1. Discuss fully the factors that enter into the determination of the interest rate at any particular place and time, and show from your discussion why the general interest rate in Western Canada is higher than in Eastern Canada or England.
2. Explain the difference between "pure profits" and wages of management and show how market price and the margin of profits regulates the production of any given commodity.
3. "Around the work of the entrepreneur centre most of the problems of modern industrial society." Discuss the above quotation so as to show the relation of the work of the entrepreneur with the other factors of production.
4. Define and compare the various types of business monopoly with regard to origin and general characteristics.
5. Briefly explain the following terms: Monopoly price, trade union, industrial union, closed shop, "cannny," compulsory arbitration.



## Grade XI. HISTORY AND ECONOMICS Lesson 7

Text: MacGibbon—Introduction to Economics

## PART A.

## Chapter XXI.—Public Finance

1. The **various services** rendered by the state to its citizens **must be paid for**. Public finance has to do with arranging the **income required** by the state to pay for these services and the **expenditure** of money on these. The state should exercise the same thrift, foresight, and care that a private individual ought to exercise in his arrangements, but its financial problem differs from that of an individual in the following particulars: (1) It can seize the property and force the services of its subjects; (2) It should render service, not accumulate wealth; (3) Its operations should cause **expenditure and income to balance**; (4) The state must care for future generations; (5) The state regulates its income by its expenditure instead of governing its expenditure by its income.

The income of the state is secured from the: (a) public domain; (b) taxes; (c) public industries; (d) fees or miscellaneous sources.

2. The public domain of Canada consists of the unalienated lands and natural resources of the three prairie provinces, and the unorganized territories. The other provinces own their own resources.

3. The public domain of Canada, both that belonging to the Dominion and that owned by the provinces has been used to attract settlers, and to encourage railway building. It does not provide any worth-while revenue. Except for the post-office which yields a moderate surplus, public enterprises; i.e., canals and railways in Canada are an expense and their deficits have to be made up out of the general revenue derived from taxation. The Canadian National Railways, consisting of the old Intercolonial, Grand Trunk Pacific and Canadian Northern Railways, have a large annual deficit which has to be met out of taxes.

4. "A tax is a legal exaction by a public authority of a part of the wealth of individuals for public purposes." Taxes are not collected from individuals with the idea that each should pay in accordance with benefit received.

Adam Smith's four principles are generally accepted as essential to a satisfactory system of taxation:

(1) Contributions should be levied on a basis of **ability to pay**.

(2) The amount of time, and manner of payment should be **clear and certain**, and not arbitrary.

(3) As much as possible the tax **should suit** the **convenience of the contributor** in the time and manner of payment.

(4) **Economy of collection**. As little of the tax as possible should be spent on collection.

5. Taxes are **direct** when the person who pays them cannot shift their burden to someone else. The **income tax** is direct.

**Indirect** taxes such as customs and excise duties are paid by the dealer or manufacturer who **pass the tax on to the consumer** by increasing the price of the articles on which the tax is paid.

6. Indirect taxes may be **highly productive** without irritating those who pay. But they usually **bear heaviest on the poorest** groups in society.

Direct taxes may be better adjusted to ability to pay, but are more liable to **evasion**, to abuse by **arbitrary officials** and rouse public resentment.

Dominion, province, and municipality levy taxes in Canada. The Dominion now may levy any sort of tax. The provinces are limited to **direct** taxes.

Until the war the Dominion levied only indirect taxes leaving direct taxes to the provinces and municipalities. Now the Dominion levies direct taxes as well, chief of which is the Income Tax which in 1922 yielded more than 100 millions along with the business profits tax.

7. Note the details of the Income Tax as given on pages 181 and 182 of the text.

The British Income Tax, because the **rate** could be easily changed to meet war conditions helped to give the whole system elasticity in yield, and justice in application.

8. The provinces receive an annual **subsidy** or grant from the Dominion treasury. Alberta, Saskatchewan, and Manitoba receive an additional grant in lieu of their **natural resources**, which in the other provinces belong to the provincial government.

Other important sources of revenue for the province are:

- (a) Taxes on corporations.
- (b) Permits and licenses.
- (c) Succession duties on inherited estates.

(d) Fees paid for some service rendered by the government.

9. Municipalities or local government units secure their chief revenue from taxes on real estate; i.e., land and improvements. The property to be taxed is assessed as having a certain taxable value. The amount of money needed for the year by the municipality is determined. Usually improvements bear less tax than land in proportion to value.

Other sources of revenue such as licenses, business taxes, are usual in towns and cities.

10. The recent great increase in taxation is largely due to the war, and the public debt increase arising out of it.

The public debt before the war, \$335,996,850, had increased to \$2,422,135,801 in 1922.

Interest on this debt has increased from \$12,893,505 in 1914 to \$135,247,849. To meet this heavy charge, heavy taxes must be levied and either an attempt to relieve the burden by paying off the principal out of surplus revenue. Or with lower taxation, **balancing the budget** and seeking to increase the taxable capacity of our country **by immigration and building up our industries.**

## STUDY QUESTIONS

1. How does the purpose of public finance differ from that of the individual?
2. What are the possible sources of public revenue?
3. What is included in the public domain of the Dominion?
4. For what purposes have the public lands of Canada been used?
5. What are Adam Smith's four principles of taxation?
6. What are the chief advantages and disadvantages of direct taxes? Of indirect taxes?
7. What direct taxes has the Dominion government levied as a result of the war?
8. What are the chief exemptions allowed from the Dominion income tax?
9. What are the chief sources of provincial revenue?
10. Explain the method of determining the property tax on a piece of real estate to the municipal government?
11. In what ways has the war affected the present burden of taxation?
12. What two general policies may be adopted to bring about a decrease in this tax burden?

## PART B.

### Chapter XXII.—International Trade

1. Trade with other countries consists chiefly of exports, goods sent out of the country to others, and imports, commodities bought in other lands. National governments usually supervise these very carefully, fearful lest foreign countries may profit at the expense of their own.

2. Foreign trade makes it possible to secure goods that cannot easily be produced locally. Tropical fruits can be purchased in Alberta with the returns from wheat growing far more easily than they could be grown in our climate.

3. "The great advantage of international trade is that, in each country, labour and capital can take fuller ad-



vantage of **native aptitudes** and **natural conditions**, developing industries which these especially favour.

4. The importance of foreign trade varies with the country. The United States is practically self-contained, while Great Britain depends very largely on her foreign trade to maintain her population.

Imports should balance exports as between one country and the rest of the world. In computing this balance the following items enter:

- (1) Export and import of commodities.
- (2) Loans made to or borrowed from foreign countries.
- (3) Interest on such loans.
- (4) Repayment of such loans.
- (5) Payments for services rendered by ships.
- (6) Transmission of funds by foreigners to their native country.
- (7) Citizens' expenses abroad.
- (8) Funds brought in by immigrants.
- (9) Payments of indemnities arising out of the war.
- (10) Government expenditures abroad.

Including all these items the balancing of imports as against exports, is of vital concern in maintaining the solvency of a country.

5. The complicated business of arranging payments between countries is the work of foreign exchange. In arranging payment of debts in the country where they were incurred credit instruments known as "**bills of exchange**" have been devised. By means of these, it is possible to arrange payments so that debts and credits are cancelled down to a point where only a small sum of specie need be shipped to make the balance even.

6. Free traders urge that the advantages of foreign trade should be made use of to the greatest possible extent. From a world point of view this would doubtless be an advantageous policy; but with national rivalries a so-called policy of "protection" has arisen. The aim of this policy is to encourage the development of industries that would not otherwise develop by affording them protection.

A customs tax on goods entering the country raised the price of such goods and makes it profitable for home manufacturers to produce them. An extremely high customs duty would shut off all foreign competition but a moderate protective tariff merely gives an advantage to a local producer. Foreign goods are still imported and **revenue** is derived from these imports. A purely free trade tariff would give no advantage to home manufacturers since an excise tax on their product, as high as the customs duty would offset the advantage of that duty.

The "Infant Industries" argument in favour of protection urges that until industries get well established they

should be given tariff protection. The objection to this is that such industries when established, strenuously oppose the removal of protection and often with success.

“Solid protection” aims at the development of all possible industries whether they could hope to ever become strong enough to meet foreign competition or not.

Dumping is the practice of selling surplus supplies in a foreign market at a greatly reduced price. This is often aimed to destroy competition so that the price may be raised at some future date. Protection against such a practice is usually in the interest of the consumer as well as of the home manufacturer.

7. The groups who favour free trade are: (1) Those who have to export their own products and sell in competition with other world producers. They wish similar conditions for buying the goods they need; (2) Commercial interests connected with the import trade. Those who favour protection are those who sell to a domestic market as their chief source of profit.

(N.B.—Study carefully the analysis of Canada’s foreign trade given on pages 193, 194 and 195 of the text. Compare Canadian trade with England, and Canadian trade with the United States.)

These last two chapters are very greatly condensed, and teachers of this subject should read carefully the chapters on Public Finance and Foreign Trade in Marshall’s Principles of Political Economy or Seager’s Introduction to Economics.

### STUDY QUESTIONS

1. What are the chief advantages of foreign trade?
2. What specialization in industry is made possible by foreign trade?
3. Enumerate the items that should enter into the calculation of a balance in foreign trade?
4. What are bills of exchange? What purpose do they serve?
5. What is the purposes of a policy of “protection”?
6. Explain the meaning of solid protection.
7. How can a customs tariff be made part of a policy of free trade?
8. What is meant by “dumping”?
9. State briefly the Infant Industries Argument in favour of protection. Criticize this argument?
10. What groups are chiefly concerned in the maintenance of a policy of free trade? Of protection?



## EXAMINATION QUESTIONS

1. Briefly compare and contrast the principles of sound public finance with those which should govern an individual in regulating expenditure and income.

2. State and briefly explain the four principles of taxation enunciated by Adam Smith.

3. Write an account of the public domain of Canada explaining as fully as you can the part it plays in our national finance and the general policy of the government with regard to its development.

4. Summarize and briefly compare the taxing powers and sources of revenue of our dominion, provincial and municipal governments.

5. Discuss as fully as you can the relative advantages and disadvantages of a protective or free trade policy for Canada.

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